

Message Text

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TO AMEMBASSY COLOMBO PRIORITY

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E.O. 11652:N/A

TAGS: AFIN, CE

SUBJECT: U.S.-OWNED RUPEES IN INTEREST BEARING ACCOUNTS

REF: A) STATE 133126; B) COLOMBO 1706, COLOMBO 1835

1. THE FILES OF BOTH THE DEPT. AND TREASURY COMBINED HAVE BEEN RESEARCHED AS PROMISED. THE SEQUENCE OF EVENTS WHICH LED TO THE EXCHANGE OF LETTERS BETWEEN USDO AND THE DIRECTOR OF ACCOUNTS AND PAYMENTS, GOC TREASURY IS AS FOLLOWS:

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2. IN JANUARY, 1964, THE GOC OBJECTED TO A REQUEST MADE BY THE USDO (ACTING ON INSTRUCTIONS FROM TREASURY/WASHINGTON) TO TRANSFER RS. 1.7 MILLION FROM THE CENTRAL BANK TO THE EASTERN BANK. THE GOC OBJECTION WAS BASED ON THE FACT THAT

THE PL 480 AGREEMENTS SIGNED PRIOR TO THAT TIME PROVIDED THAT RUPEES GENERATED "WOULD BE UTILIZED IN A MANNER BENEFICIAL TO BOTH COUNTRIES." THE GOC STATED THAT THE ABOVE MENTIONED REQUESTED TRANSFER WOULD CLEARLY NOT BE BENEFICIAL TO CEYLON AND THEREFORE REFUSED TO PERMIT THE EMBASSY THE UN-RESTRICTED USE OF U.S.-OWNED RUPEES IN THE CENTRAL BANK. (SEE SUMMARY OF BLOCKED RUPEE ISSUE OUTLINED IN COLOMBO A-140, JANUARY 6, 1966).

3. DISCUSSIONS WERE HELD IN SPRING OF 1965 BETWEEN WASHINGTON - EMBASSY AND GOC RELATIVE TO POSSIBLE RESUMPTION OF US AID TO CEYLON. WASHINGTON'S POSITION WAS THAT BEFORE A NEW P.L. 480 AGREEMENT COULD BE SIGNED WITH THE GOC THE BLOCKED RUPEE ISSUE HAD TO BE RESOLVED.

A). STATE AIRGRAM A-25, OCTOBER 15, 1965.
TREASURY'S POSITION WAS THAT WHEN BLOCKED RUPEE ISSUE WAS RESOLVED THE MAXIMUM AMOUNT POSSIBLE SHOULD BE TRANSFERRED FROM THE CENTRAL BANK TO INTEREST BEARING ACCOUNTS WITH EASTERN BANK AND SUCH OTHER COMMERCIAL BANKS IN COLOMBO AS EMBASSY DEEMED APPROPRIATE.

B). EMBTEL 326, NOVEMBER 3, 1965. GOC WAS
RELUCTANT TO GRANT EMBASSY PERMISSION RELATIVE TO ABOVE TREASURY POSITION AND THAT CENTRAL BANK WAS UNWILLING TO CONSIDER PAYMENT OF INTEREST ON SUCH FUNDS. HOWEVER, GOC DID SUGGEST INFORMALLY THAT USG CONSIDER USING FUNDS FOR PURCHASE OF GOC 90-DAY TREASURY BILLS WHICH PAID ABOUT 3 PERCENT INTEREST.

C). STATE TELEGRAM 249, DEC. 9, 1965. EMBASSY
WAS REQUESTED TO DEVELOP WITH CEYLONese OFFICIALS THE SUGGESTED METHOD OF OBTAINING INTEREST AND STATED THAT ARRANGEMENTS FOR INTEREST SHOULD NOT ONLY INVOLVE RUPEES AVAILABLE FOR U.S.-USE, BUT SHOULD INCLUDE ALL U.S.-OWNED RUPEES INCLUDING THOSE AVAILABLE FOR COUNTRY USE.

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D). STATETEL 296, JAN. 7, 1966. EMBASSY AGAIN
URGED TO CONCLUDE ARRANGEMENT WITH CENTRAL BANK (TREASURY BILL RATE) WHICH WOULD PERMIT INTEREST TO BE EARNED ON USDO BALANCE IN CENTRAL BANK. PROCEDURES TO BE UTILIZED IN CARRYING OUT THIS ARRANGEMENT WERE OUTLINED. ASSUMING THIS ARRANGEMENT WAS ACCEPTABLE TO GOC, STATE AND TREASURY DID NOT FEEL THERE WAS A NEED TO MOVE FUNDS FROM THE CENTRAL BANK TO COMMERCIAL BANK FOR THE PURPOSE OF EARNING INTEREST.

E). EMBTEL 531, JAN. 12, 1966. CHIEF ACCOUNTANT
OF CENTRAL BANK INDICATED CONCURRENCE WITH PROPOSED

TREASURY BILL ARRANGEMENT.

F). EMBTEL 551, JAN. 22, 1966. . . . EMBASSY STATED THAT DETAILED PROCEDURE OUTLINED IN STATE 296, WAS AGREED UPON BY USDO AND CHIEF ACCOUNTANT OF CENTRAL BANK (AMERASINGHE) BY EXCHANGE OF LETTERS. (WASHINGTON DOES NOT HAVE THESE LETTERS). EMBASSY ALSO INDICATED THAT TREASURY BILL ARRANGEMENT WAS TO MEAN THAT USDO WOULD USE USG-OWNED FUNDS TO PURCHASE GOC TREASURY BILLS AND FURTHER INDICATED

THAT TREASURY BILLS PURCHASED FROM CENTRAL BANK WILL BEAR ONLY 3/4 PERCENT INTEREST (I.E., SPECIAL RATE PAID ON CENTRAL BANK HOLDINGS).

G). STATTEL 346, FEB. 2, 1966. . . . WASHINGTON MADE IT CLEAR THAT CENTRAL BANK WAS NOT TO ACT AS AGENT FOR USDO, AND WAS NOT REPEAT NOT AGREEABLE TO USE OF SPECIAL INTEREST RATE PAID ON CENTRAL BANK HOLDINGS. THESE HOLDINGS WERE TO MEAN ALL U.S.-OWNED RUPEES, BOTH U.S.-USE AND COUNTRY-USE DEPOSITS FROM PREVIOUS P.L. 480 AGREEMENTS. HOWEVER, IN VIEW OF SOME MISUNDERSTANDING BETWEEN GOC AND EMBASSY, WASHINGTON AGREED TO EXCLUDE BALANCES OF 104(G) AND 104(E) COUNTRY USE FUNDS DEPOSITED UNDER PREVIOUS P.L. 480 AGREEMENTS FROM EARNING INTEREST. WASHINGTON ALSO STATED THAT INTEREST RATE SHOULD BE THE GOC TREASURY BILL RATE, LESS 1/32, PREVAILING ON THE FIRST DAY OF EACH QUARTER. (CURRENT NOTE: IT APPEARED THAT THE GOC INTENDED TO DRAW DOWN ON USDO BALANCE MAINTAINED BY THE CENTRAL BANK AND INVEST THE SAME IN GOC TREASURY BILLS. IN VIEW LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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OF THE FACT THAT NO U.S. STATUTORY AUTHORITY EXISTS TO INVEST USG-OWNED FUNDS IN FOREIGN SECURITIES, TREASURY ATTEMPTED TO POINT OUT THAT DECISION TO INVEST FUNDS ON DEPOSIT WAS THAT OF THE CENTRAL BANK AND THE AMOUNT OF INTEREST TO BE PAID ON USG-OWNED BALANCES HAD NO BEARING ON THE AMOUNT OF FUNDS CENTRAL BANK DECIDED TO INVEST).

H). EMBTEL 592, FEB. 5, 1966. . . . ABOVE POSITION APPEARED TO HAVE BEEN ACCEPTED BY MR. COREA, GOC.

I). EMBTEL 621, FEB. 12, 1966. . . . MR. LOOS, DIRECTOR FOREIGN AID, GOC, INDICATED THAT CENTRAL BANK HAD DIFFICULTY COMPLYING WITH GOC TREASURY BILL INVESTMENT PROCEDURE. MR. LOOS STATED THAT LETTER BEING SENT TO EMBASSY REQUESTING USG ACCEPTANCE OF TREASURY BILL INVESTMENT AT SPECIAL RATE OF 1 PERCENT. GOC WAS JUSTIFYING THEIR REQUEST BASED ON UNDERSTANDING THAT USG IS ACCEPTING THIS INVESTMENT RETURN IN INDIA.

J). EMBTEL 631, FEB. 15, 1966. . . . AMBASSADOR

RECOMMENDED THAT WE ACQUIESCE AND NOT QUIBBLE OVER ONE VERSUS THREE PERCENT AS LONG AS PRINCIPAL HAS BEEN ESTABLISHED OF GOC PAYING INTEREST IN U.S.-OWNED RUPEES.

K). STATE 379, FEB. 18, 1966. . . . BECAUSE OF IMPORTANCE OF SIGNING P.L. 480 AGREEMENT WASHINGTON WAS WILLING TO ACCEPT 1 1/2 PERCENT ON FUNDS WITH CENTRAL BANK. THIS WAS SAME RATE PAID BY INDIAN CENTRAL BANK. WE MADE THE

POINT THAT GOC SHOULD KNOW THAT IN INDIA USG ALSO HAD SUBSTANTIAL FUNDS ON DEPOSIT IN PRIVATE BANKS EARNING 2 PERCENT ON MOST FUNDS AND 3 PERCENT ON ALL NEW ACCRUALS. INDIAN CENTRAL BANK RATE NOT RECENTLY ESTABLISHED AND IS SUBJECT TO REVIEW. ALSO EXPECT TO REVIEW APPROPRIATE RATE IN CEYLON. (CURRENT NOTE: WASHINGTON ASSUMED ABOVE MENTIONED REVIEW WAS DISCUSSED WITH GOC).

L). EMBTEL 710, MARCH 7, 1966. . . . GOC AGREED TO 1 1/2 PERCENT INTEREST. GOC WANTS TO ADD "UNLESS OTHER ARRANGEMENTS ARE MUTUALLY AGREED UPON BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF CEYLON." LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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ALSO, GOC WANTED TO KNOW IF USG INTENDED TO INVEST LOAN REPAYMENTS FROM NEW P.L. 480 AGREEMENT (A) UNDER 1 1/2 PERCENT INTEREST PROCEDURE OR (B) IN INTEREST BEARING ACCOUNT OF USG CHOOSING.

M). STATE 410, MARCH 8, 1966. . . . WASHINGTON AGREEABLE TO QUOTE MADE ABOVE. ALSO, USG PLANNED TO TREAT 104 (G) LOAN REPAYMENTS UNDER NEW AGREEMENT IN SAME MANNER AS OTHER U.S.-USE RUPEES. FOR PRESENT, WE INTEND KEEPING ALL U.S.-USE RUPEES (PLUS NEW ACCRUALS OF COUNTRY-USE RUPEES) IN INTEREST BEARING ACCOUNT IN CENTRAL BANK EXCEPT FOR SMALL WORKING BALANCE IN EASTERN BANK.

N). EMBTEL 724, MARCH 10, 1966. . . . GOC AGREES TO PAY 1 1/2 PERCENT INTEREST ON U.S.-OWNED RUPEES IN USDO'S ACCOUNT IN CENTRAL BANK. GOC WILL NOT INVEST FUNDS IN TREASURY BILLS.

O). STATE A-87, MAY 14, 1966. . . . THE CEYLON RUPEES COLLECTED UNDER MARCH 12, 1966 AGREEMENT TOGETHER WITH THE U.S.-USE PORTION OF YOUR EXISTING BALANCE AND ANY FUTURE COLLECTIONS AVAILABLE FOR U.S.-USE SHOULD BE DEPOSITED IN A SPECIAL ACCOUNT WITH THE TREASURY OF CEYLON. THE BALANCE IN THIS ACCOUNT SHOULD ACCRUE INTEREST AT THE RATE OF 1 1/2 PERCENT PER ANNUM. FUTURE EXPENDITURES OF NON-U.S.-USE FUNDS SHOULD BE CHARGED TO BALANCES GENERATED UNDER PRIOR AGREEMENTS UNTIL SUCH BALANCES HAVE BEEN EXHAUSTED.

P). JUNE 8 AND 15, 1966. . . . EXCHANGE OF LETTERS BETWEEN GOC, TREASURY AND USDO.

Q). EMBTEL 1064, JUNE 29, 1966. . . . EMBASSY RECEIVED LETTER FROM GOC CONFIRMING WILLINGNESS TO PAY 1 1/2 PERCENT ON U.S.-USE RUPEES ON DEPOSIT WITH GOC TREASURY. EMBASSY TRANSFERRED RS. 8 MILLION TO GOC TREASURY ACCOUNT ON JUNE 16.

R). STATE 2274, JULY 6, 1966. . . . ASSUME RS. 8 MILLION TRANSFERRED TO GOC TREASURY WAS BALANCE OF U.S.-USE RUPEES WHICH WOULD BE IN ACCORDANCE WITH DEPOSIT INSTRUCTED LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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TIONS OUTLINED IN STATE A-87, MAY 14. INTEREST ARRANGEMENTS ACCEPTABLE.

S). STATE CA-8499, JUNE 6, 1968. . . . DO NOT HAVE. . . ASSUME WASHINGTON ASKED FOR CURRENT INTEREST RATES IN CEYLON.

T). EMB OM DATED JUNE 28, 1968. . . . QUOTED INTEREST RATES PAID BY COMMERCIAL BANKS IN CEYLON. EMBASSY REMINDED WASHINGTON OF AGREED UPON INTEREST RATE OF 1 1/2 PERCENT TO BE PAID BY TREASURY OF CEYLON ON FUNDS IN SPECIAL INTEREST BEARING ACCOUNT WITH THE GOC TREASURY.

U). EMBTEL 2360, OCT. 21, 1969 (DO NOT HAVE - FOLLOWING OBTAINED FROM EMBTEL 1644, MAY 21, 1975). . . . EMBASSY INFORMED STATE AND TREASURY THAT OWNERSHIP OF EASTERN BANK WAS CHANGING. EASTERN HAD 20 TREASURY FIXED DEPOSIT RECEIPTS TALLING 5,493,266.54 RUPEES. CHIEF DISBURSING OFFICER DIRECTED USDO TO TRANSFER DEPOSITS IN EASTERN TO NATIONAL AND GRINDLAYS.

V). EMBTEL 3118, OCT. 27, 1971 (DO NOT HAVE - FOLLOWING OBTAINED FROM EMBTEL 1644, MAY 21, 1975). . . . BY OCT. 1971, NATIONAL AND GRINDLAYS HAD ON DEPOSIT 3,489,000 RUPEES WHICH HAD BEEN TRANSFERRED FROM COMMERCIAL BANK DEPOSITS. EMBASSY INFORMED TREASURY/WASHINGTON THAT COMMERCIAL BANK OFFER 7 PERCENT INTEREST ON ONE-YEAR FIXED DEPOSITS. ABOVE CABLE ALSO STATED THAT COMMERCIAL BANK DEPOSITS AMOUNTED TO 2,464,000 RUPEES. EMBASSY SUGGESTED 7 PERCENT OFFER BE ACCEPTED AND THAT BALANCE ON 3,000,000 RUPEES BE DRAWN "FROM FUNDS ON DEPOSIT WITH GOC TREASURY".

W). STATE 20008000, NOV. 3, 1971 (DO NOT HAVE - FOLLOWING OBTAINED FROM EMBTEL 1644, MAY 21, 1975) - USDO WAS AUTHORIZED TO MAINTAIN BALANCE OF 3 MILLION RUPEES WITH COMMERCIAL BANK. REACHING A 3 MILLION RUPEE LEVEL RE-

QUIRED A TRANSFER OF SLIGHTLY OVER 500,000 RUPEES FROM
GOC TREASURY.

X). EMBTEL 552, FEB. 26, 1975. . . . EMBASSY QUOTED
INTEREST RATES MADE AVAILABLE BY VARIOUS BANKS IN CEYLON.
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REQUESTED PERMISSION TO TRANSFER LOAN REPAYMENTS (ICA AND
DLF WHICH WERE ACCUMULATING A RESULT OF AGREEMENT REACHED
IN 1974) TO NATIONAL AND GRINDLAYS TO EARN A HIGHER
INTEREST RATE.

Y). STATE 61088, MARCH 18, 1975. . . . WASHINGTON STATED
THAT EXCESS FUNDS SHOULD BE PLACED IN INTEREST BEARING
ACCOUNTS WITH BANKS OFFERING THE MOST FAVORABLE TERMS TO
USG.

4. ABOVE CABLE REFERENCES BEING POUCHED UNDER SEPARATE
COVER.

5. SEPTTEL FOLLOWS WITH REVIEW OF U.S. POSITION ON ISSUES
RAISED AND SUGGESTED APPROACH TO CEYLONESE. KISSINGER

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